

**Remarks Prepared for Energy Undersecretary David Garman
Before the
Committee on Energy and Commerce
U.S. House of Representatives**

September 7, 2005

Mr. Chairman and Members of the Committee,

Thank you for the invitation to appear this morning on the subject of Hurricane Katrina and its effect on energy supply and prices.

Let me start by saying this is a tragedy of monumental proportions. Hurricane Katrina is one of the worst national disasters in our nation's history.

It has been responsible for an unknown number of deaths – possibly in the many thousands.

And for those who survived, it has utterly destroyed homes, schools, businesses and livelihoods. For them, it will be years before life returns to normal ... if it ever can.

It is also the largest single disaster impacting the energy infrastructure of this country.

At the Department of Energy, our focus is on two aspects of the events in the Gulf of Mexico.

First, obviously, we are concerned about the direct impact of the storm on the residents of Louisiana, Mississippi, Alabama, Florida and other affected states.

And because the Gulf Coast plays such a critical role in supplying much of the nation's energy needs, we are also concerned about the hurricane's broader effect on the country as a whole and on international markets.

I want you to know at the outset that Secretary Bodman has committed the Department of Energy to doing everything in its power to meet the immediate needs of those affected by Hurricane Katrina – both on the Gulf Coast and throughout the rest of the country – and we have marshaled all of our resources to fulfill that commitment.

Within the last week, the Department of Energy dispatched employees to emergency response centers throughout the southeastern United States to coordinate power restoration efforts. DOE staff are working closely with state and local officials, first responders, and power companies to begin restoring power and fuel supplies as quickly as possible, wherever possible.

In the immediate aftermath of Katrina, upwards of 2.7 million customers were without electric power in Louisiana, Mississippi, Alabama, Florida, Georgia, and Tennessee. One week ago, for instance, more than 90 percent of the residents in the state of Mississippi had no electricity – including those hundreds of miles from where the hurricane made landfall.

Power has been restored in many of these areas. As of 11 a.m. yesterday, fewer than a million customers remained without electric power due to Hurricane Katrina. In Louisiana and Mississippi, 971,360 were without power. Alabama has essentially restored all customers without electric power.

In some places – and not just New Orleans – it may be weeks, perhaps months, before power can be restored. In Biloxi, Gulfport, and elsewhere on the Coast, the

electricity infrastructure of transmission, substations, and distribution has been damaged or destroyed. Those capabilities must be restored and rebuilt, and this cannot be done overnight. The publicly owned municipal and cooperative utilities in these states, with the help of other utilities and contractors from many states, are undertaking the massive job of restoring the system. But it will take time.

A number of challenges are hindering this effort. One is just the massive scope of the destruction, as we have all seen on television. Not to minimize the suffering caused by the hurricanes that battered Florida last year, but Hurricane Katrina's devastation is in an entirely different category. Upon seeing what Katrina had wrought on the Mississippi coast, Governor Barbour remarked that it is what Hiroshima must have looked like 60 years ago. I don't think anyone could accuse the Governor of hyperbole.

On top of the sheer devastation caused by the storm as it passed through, the subsequent flooding in New Orleans, Mobile, and elsewhere adds further huge complications.

Well over 10,000 crews have arrived throughout the affected region to work on electricity restoration. As they finish their work in certain places, they move on to the next ones. As Florida utilities have completed their work, crews from these companies and their contractors have moved to the Gulf Coast to support restoration work. Crews have come from many states and Canada to support utility restoration.

But this is a massive area we are talking about, and a number of factors are slowing progress. At this point inaccessibility and the extensive damage from flooding and saltwater are the biggest challenges. We have heard from Entergy that its single

biggest problem to restoring power in the greater New Orleans area is the lack of food and water for its repair crews, who have literally been sleeping in their trucks.

The affected states face a massive challenge, but we will work with state and local leaders, with utilities and power companies, and with anyone else to try to restore power wherever possible as quickly as possible.

While the Department works with people on the ground to restore power, we are also monitoring the effects of the storm on the nation's energy markets.

Nine refineries that supply nearly 10 percent of the nation's gasoline were shuttered by the storm.

Thousands of energy industry workers in the Gulf Coast had to be evacuated.

Oil and Gas production rigs and other infrastructure were damaged.

The pipelines supplying Gulf Coast gasoline and natural gas to the Midwest and Eastern part of the country were affected, as well. However, damage was not as severe as we at first had feared.

One week after the storm, these are back at full or near full capacity. Meanwhile, 95 percent of the nation's refining capacity should be operating by mid-September.

Despite this news, it is not clear how long it will be before energy production and distribution in the Gulf is back to normal.

The Department of Energy and the Bush Administration are very concerned about the effects of this disaster on already tight markets.

And we are concerned about the impact of higher gasoline prices on the average American.

Accordingly, we have taken a number of steps to try to alleviate the situation. Last week, the Department of Energy entered into separate agreements with several energy companies to loan more than 12 million barrels of oil from the Strategic Petroleum Reserve in order to limit disruptions in crude supplies for refineries.

The crude oil will be loaned from the SPR under short-term contractual agreements and returned to the Reserve once supply conditions return to normal.

I want to point out we have taken very quick action in this regard. Oil was on the way to refineries within 48 hours of loan requests being made.

Further, in the aftermath of the storm, we outlined the impact on our energy sector for the members of the International Energy Agency to determine whether it was necessary to supply additional crude oil and gasoline products to the market. On Friday, the members of the IEA made a historic decision to provide crude oil from each member's strategic reserves.

Under this agreement, IEA member countries have agreed to make available 60 million barrels, or an average of 2 million barrels per day, for 30 days beginning immediately. This will consist of both oil and gasoline, with an emphasis on refined product.

The United States is a member of the International Energy Agency, of course, so to meet our obligations as a member of the IEA, we will be releasing 30 million barrels of crude oil from the United States Strategic Petroleum Reserve.

In addition to these efforts, I want to add that the Environmental Protection Agency has granted a nationwide waiver for fuel blends to make more gasoline and diesel

fuel available throughout the country. The EPA action will permit the early use of wintertime gasoline blends and, we expect, will take some pressure off the price of gas.

On top of this, I want to point out that the President has made an appeal to the American people to conserve gasoline during this time of tightened supply. There are a number of things that people can do to reduce their use of gasoline, such as carpooling, driving slower, bundling errands together to make fewer trips, and telecommuting.

One final point I want to make concerns the anecdotal reports all of us have heard about price gouging in various parts of the country in the days after Katrina hit. Our Department and our Administration take the subject of excessive pricing very seriously. It is unconscionable that Americans would seek to exploit a tragedy for profit.

DOE has established a web site where Americans can report gasoline price gouging. All complaints registered with the Department of Energy will be collected and transmitted to the Federal Trade Commission, U.S. Department of Justice, and individual State Attorneys General for investigation and prosecution where appropriate.

Chairman Barton ... members of the Committee ... I want to thank you for the opportunity to come before you this morning to apprise you of our Department's efforts in the wake of Hurricane Katrina.

I would be happy to respond to any questions you and the other members may have.

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